MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns (P)B2 ratings to Condotte; outlook stable

Global Credit Research - 27 Apr 2015

Frankfurt am Main, April 27, 2015 -- Moody's Investors Service has today assigned a (P)B2 corporate family rating to Societa Italiana per Condotte d'Acqua S.p.A. (Condotte). Concurrently, Moody's assigned a provisional (P)B2 rating to the proposed EUR300 million senior unsecured notes. The outlook on the ratings is stable. This is the first time that Moody's has rated Condotte.

Moody's issues provisional ratings for debt instruments in advance of the final sale of securities or conclusion of credit agreements. Upon the successful closing of the bond issuance and a conclusive review of the final documentation, Moody's will endeavour to assign a definitive rating to the different capital instruments. A definitive rating may differ from a provisional rating.

RATINGS RATIONALE

Condotte's (P)B2 corporate family rating reflects the company's strong order backlog, equivalent to approximately 3.4 years of current revenue, supporting ongoing revenue growth and expectations of profit margin improvement. The current rating also reflects Moody's expectations of an improvement in leverage below 5.0x in the next 12-18 months, from 6.3x at the end of December 2014, based on Moody's adjusted figures. Moody's adjustments mainly relate to pensions, operating leases and financial guarantees and follow the recent change in OIC 23 of the Italian GAAP.

Given the currently less than ample liquidity of the company, the (P)B2 CFR also incorporates the expectation that Condotte will successfully place the envisaged bond. Based on this assumption, Moody's considers Condotte's liquidity profile as adequate. At the end of 2014, the company had cash on balance sheet of EUR 161 million. Assuming minimum cash at 3% of revenues, available cash was around EUR120 million. The proposed transaction of EUR300 million is intended to refinance EUR274 million of outstanding bank loans, and thereby rolling over its portion of short-term maturities by granting additional EUR20 million as cash. Nevertheless, we expect that cash generation will not be strong enough to cover consistently its debt maturities and capex. Following the bond issue, the company will sign a committed revolving credit facility of EUR50 million, with, however, a very short maturity of 18 months. On top of this, we note that Condotte currently has also access to EUR300 million short term credit lines, which we do not include in our liquidity forecast, given the uncommitted character of these lines. We also note that the company has currently EUR940.5 million of performance or advance payment guarantees outstanding under uncommitted credit lines. Availability of lines for letters of guarantee are essential for the construction business, and any reduction in these lines could have an adverse effect on the companys orderbook or liquidity position.

The main constraints to the rating are represented by the limited diversification of the company's order backlog, with the largest project currently representing approximately one fifth of the value of the construction backlog (as of December 2014), its currently high leverage (based on Moody's calculations) for the (P)B2 rating, historically negative free cash flow generation (after capex for acquisitions and all non recurring capex) on average over the last four years, and the strong growth over the past three years (turnover grew from EUR765 million in 2011 to EUR1,125 billion in 2014). Exposure to the weak Italian economy -- around a third of the construction backlog at the end of 2014 -- is also constraining Condotte's rating.

The stable outlook factors in expectations that Condotte's leverage will improve in the next 12-18 months, as evidenced by a projected debt/EBITDA at approximately 5.0x (Moody's adjusted) at the end of 2015, down from 6.3x (Moody's adjusted) at the end of 2014.

What Could Change the Rating -- Up

Positive rating pressure could develop if the company's leverage was expected to improve, as evidenced by debt/EBITDA expected to fall towards 4x on a sustained basis, and if the company was able to sustainably generate positive free cash flows above 5% of gross (Moody's adjusted) debt. For a rating upgrade we would also expect improved business risk profile in terms of less project concentration and more regional diversification. A rating upgrade would also require solid liquidity levels.

What Could Change the Rating -- Down

Negative rating pressure could develop if the company's debt metrics were expected to deteriorate, as evidenced by debt/EBITDA (as adjusted by Moody's) above 5x or EBIT/Interest expense (as adjusted by Moody's) below 2.0x. Negative pressure could also develop if we anticipated significantly negative free cash flows (as adjusted by Moody's) or liquidity to deteriorate.

The principal methodology used in these ratings was Construction Industry published in November 2014. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Rome, Italy, Condotte is a construction company with consolidated revenue of EUR 1.2 billion in 2014. The company operates as an engineering, procurement and contractor company (EPC) in Italy and abroad, primarily in tunneling works and high speed railway construction projects. Condotte is the third largest construction company in Italy by revenue and has expanded its activities outside its domestic market since 2008. At the end of 2014, the group had 5,691 employees. Condotte was established in 1880 and is indirectly controlled by the Bruno Tolomei family through Ferfina, SpA, an intermediate holding company.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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